



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 4/28/2006

GAIN Report Number: CA6019

Canada

Market Development Reports

Private Label Report

2006

Approved by:

Lisa Anderson
U.S. Embassy

Prepared by:

Alejandro Gonzalez

Report Highlights:

Although Canadian retailers are hard bargainers when it comes to private-label agreements, U.S. food exporters should understand that price is not the only concern, but innovation, product quality, and service to the retailer are other factors to consider in developing a long term and profitable relationship.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1]
[CA]

Report Highlights:

The private label industry in Canada experienced a radical transformation over the last ten years, and now focuses more on the production of premium quality goods, as opposed to the traditional low-priced, low-quality items of the past. The shift came when retailers realized that price sensitive consumers also needed better quality products and were willing to pay extra for them. Now, Canadian retailers are looking for innovative, premium quality goods that can build categories and bring profits not only for them but for also for brand name manufacturers.

Introduction

Retailers worldwide are facing increasing pressure from all fronts. Not only are customers more discerning and demanding, but traditional barriers between products and services are also disappearing. The phenomenal growth of e-commerce has increased consumers' expectations for more competitive prices and 24-hour service. A tool supermarkets have discovered to make them more competitive is the use of private label products. Retailers pursue five key goals when developing and selling private label goods:

1. Improve profitability
2. Build and maintain consumer loyalty
3. Reinforce market position
4. Increase consumer choice, and
5. Match products more precisely to specific customers' needs

Other objectives include the enhancement of store image, better control of supply chain and product quality, and differentiation from competitors.

Definitions

Private label products include all goods sold under a retailer's brand. In regard to the actual brand, this can be the firm's own name or a label created in order to be used exclusively by that retailer. In some cases, a retailer can belong to a wholesale group that owns the brand or brands that are available to only the members of the company.

Major supermarkets, mass merchandisers, drugstores, and discounters today offer almost any product under the retailer's own brand. Consumers can now find private labels covering full lines of food and beverage products including fresh, canned, frozen, and dry foods; snacks, ethnic specialties, and non alcoholic beverages.

According to various consumer research studies, the advantages of private label are represented by the choice and opportunity to regularly purchase quality food and non-food products at savings compared to manufacturer brands, without having to wait for promotional pricing. Also, private label items are made with the same or better ingredients than the manufacturer brands, and because the retailer's name or symbol is on the package, the consumer is assured that the product meets the retailer's quality standards and specifications.

In general, manufacturers of private label products can be classified as follows:

- Large manufacturers who produce both their own brands and private label products.
- Small and medium size manufacturers that specialize in particular product lines and concentrate on producing private label products almost exclusively.
- Major retailers and wholesalers that operate their own manufacturing plants and provide private label products for their own stores.

The Private Label Manufacturers Association (PLMA), founded in 1979, is the international trade organization dedicated to the promotion of private label brands. With offices in North American and Europe, PLMA represents more than 3,200 manufacturers and suppliers worldwide, ranging from companies that specialize in private label to those that produce private label products in addition to their own manufacturer brands.

Global Trends

According to ACNielsen, two thirds of consumers worldwide consider private label products to be a good alternative to other brands. In the developed markets of North America, Europe, and the Pacific, as many as four in five consumers consider this to be the case. In Canada, 83% of consumer survey respondents agreed that "private label is usually extremely good value for the money".

At the end of the first quarter of 2003, ACNielsen reported that private label value sales across 36 countries and 80 categories were at US\$85 billion, up 4% versus a year earlier. The largest market worldwide in absolute sales dollars for private label was the United States at just under \$26 billion, nearly twice the size of the next largest market, Great Britain. In comparison, Canada showed sales of \$3 billion.

Sales of Private Label Products in Absolute Dollars

	Country	Region	PL Value	PL Share	PL Growth
1	United States	North America	25.8 Billion	15%	- 1%
2	Great Britain	Europe	13.8 Billion	31%	0%
3	Germany	Europe	13.7 Billion	27%	10%
4	France	Europe	8.7 Billion	21%	5%
5	Spain	Europe	3.6 Billion	23%	16%
6	Canada	North America	3.1 Billion	20%	5%
7	Switzerland	Europe	2.6 Billion	38%	3%
8	Italy	Europe	2.2 Billion	10%	10%
9	Netherlands	Europe	2.1 Billion	19%	2%
10	Belgium	Europe	1.6 Billion	24%	3%

Source: The Power of Private Label, ACNielsen Global Services, 2003

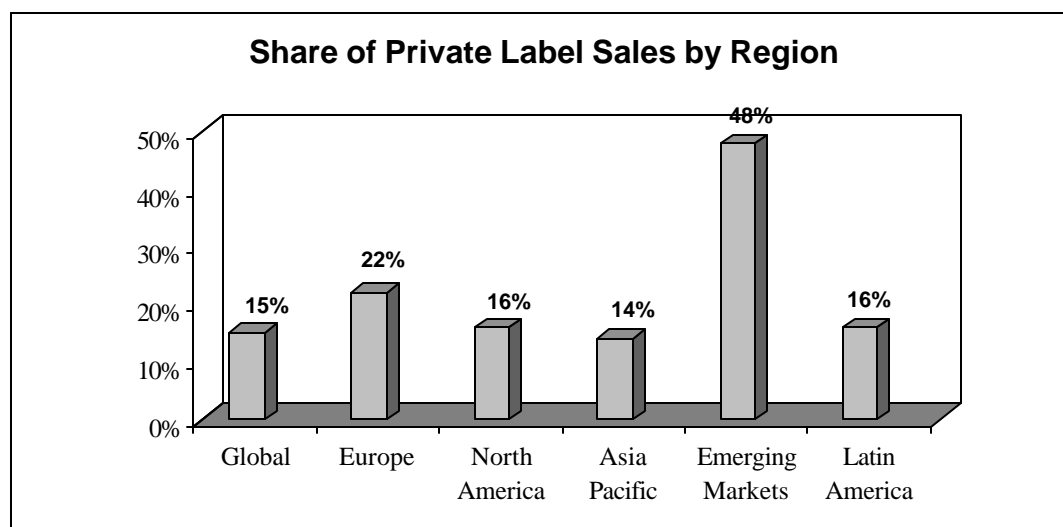
In regard to pricing on a global basis and taking into account all 80 categories, private label products were found to offer the consumer an average discount of 31% versus its manufacturer counterparts. Interestingly, this is similar to the price differences seen in a comparable study also conducted by ACNielsen in 1998.

Price Differential Between Private Label and Manufacturer Brands by Country

	Country	Region	PL Price Differential
1	United States	North America	-31%
2	Great Britain	Europe	-31%
3	Germany	Europe	-45%
4	France	Europe	-24%
5	Spain	Europe	-43%
6	Canada	North America	-28%
7	Switzerland	Europe	-29%
8	Italy	Europe	-26%
9	Netherlands	Europe	-28%
10	Belgium	Europe	-45%

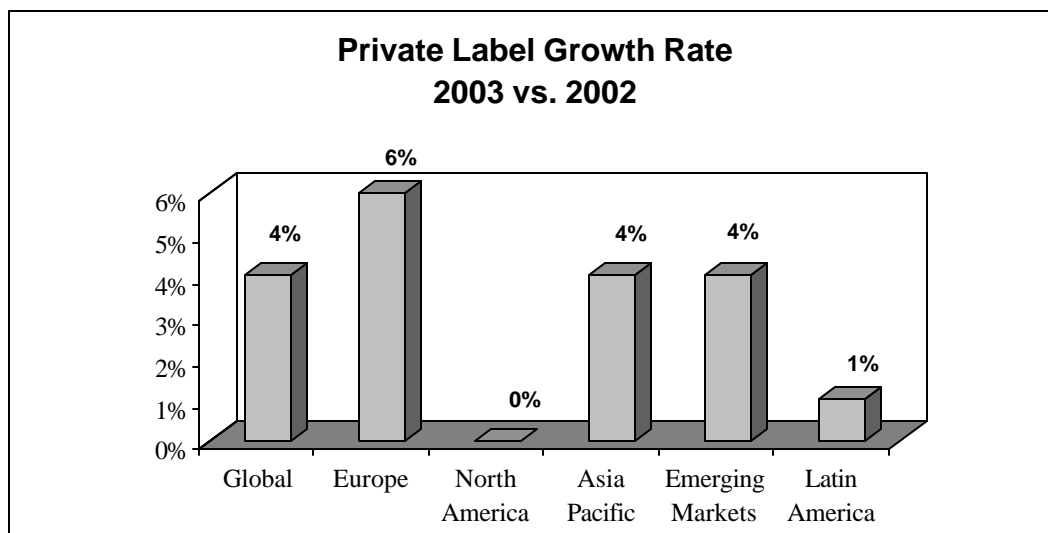
Source: The Power of Private Label, ACNielsen Global Services, 2003

In summary, in 2003 the share of global private label sales was 15% of total sales. This figure represents the aggregate value share of private labels across 36 countries, grouped in five major world regions (Europe, North America, Asia-Pacific, Latin America, and Emerging Markets).



Source: The Power of Private Label, ACNielsen Global Services, 2003

Even though the private label sales in North America account for a significant percentage when compared to the same figure in Europe, Canada and the United States represent a mature market for the industry. ACNielsen found that there had been almost no private label growth rate in North America from 2002 to 2003.



Source: The Power of Private Label, ACNielsen Global Services, 2003

Although U.S. ACNielsen coverage for the 2002-2003 period is based on a consistent sample, it does not include sales in Wal-mart, a strong player within the private label market. In a separate evaluation of Wal-Mart in the U.S., over 70 categories were considered within this chain; the findings show that its share of private label sales across these selected categories was 17% of total sales, similar to the average private label share of 15% in the remaining (i.e., non Wal-Mart) U.S. market. However, Wal-Mart registered a 12% growth from 2002 to 2003 in value sales compared to a less than 1% growth rate for other U.S. retailers.

Private Label Products in Canada

Private label has come a long way since the low-quality, low-priced generic canned goods of the 1970's. Today, the majority of Canadian retailers offer an ever-increasing number of private label goods that offer quality at permanently discounted prices. The following is a summary of key Canadian retail firms and of their private label products.

Chain	Number of Private Label Products/SKU's	Private Labels	Website
The Great Atlantic & Pacific Company of Canada, Ltd.	2058	Master Choice, Equality, Eight O'Clock Coffee, Basics for Less, Body Basics, Bakers Oven, Fresh Obsessions, Fresh 200.	www.freshobsessed.com
Buy-Low Foods, Ltd.	1200	Buy Low, Western Family, Western Classic, Value Priced, Good N' Kind.	www.buy-lowfoods.com
Canada Safeway Ltd.	5000	Empress, Safeway, Cragmont, Town house, Taste Tells, Lucerne, Bel-air, Edwards, Skylark, Stonehedge Farms,	www.safeway.com

		Truly Fine, Nature's Blend, Safeway Select, Oven Joy.	
Federated Co-operatives Limited	1200	Co-op, Co-op Gold, Harmonie, Country Morning	www.fcl.ca
Loblaw Companies Ltd.	5000	No Name, President's Choice, Teddy's Choice, G.R.E.E.N., Natural Choice, Too Good To Be True, Sunspun.	www.loblaw.com
Longo Brothers Fruit Market Inc.	200	Longo's Own	www.longos.com
Metro Inc.	2000	Selection Merite, Irresistible, Treebu, Econochoix.	www.metro.ca
Sobeys Inc.	3430	Our Compliments, Smart Choice, Our Best, Taste of the Day.	www.sobeys.com
The North West Company	103	Northern, Best Value, Exclusive Selection.	www.northwest.ca

Source: Who's Who, Annual Directory of Chains and Groups in Canada, Canadian Grocer Magazine, 2005

Private Label Products by Category - Refrigerated Food, The New PL Leader

The product area of Paper and Plastic wraps (PPW), which comprises such categories as aluminum foil, paper towels, and plastic wraps, has long been the dominant private label market share and sales leader when compared against manufacturer brands. However, in 2005, ACNielsen reported that Refrigerated Food, which includes such categories as milk, cheese, and completely ready meals, was able to move to the top with PPW. With a 2004 growth rate of 9%, Refrigerated Food more than tripled the growth rate of PPW, which only grew 2% in 2004.

The rise of Refrigerated Food confirms a steady trend in the private label strategy of retailers worldwide: pushing private label products into premium segments that go beyond the "low price-high volume" commodity driven practices of the past. In fact, when ACNielsen compared the average price differential between branded and private label products within 10 product areas, Refrigerated Food had the smallest price differential at 16%.

Rank	Product Area	Share (%)	Growth (%)
1	Refrigerated Food	32	9
2	Paper, Plastic & Wraps	31	2
3	Frozen Food	25	3
4	Pet Food	21	11
5	Shelf Stable Food	19	5
6	Diapers & Feminine Hygiene	14	-1
7	Health Care	14	3
8	Non-Alcoholic Beverages	12	3
9	Home Care	10	8
10	Snacks & Confectionery	9	8

Source: The Power of Private Label, ACNielsen Global Services, 2005

Strategically, retailers seem to be placing more and more of an emphasis on branding and marketing their private label products to match the lifestyles and values of their customers. From the *Tesco Healthy Living* range of products to Loblaw's *President Choice* expansion into organics and health-oriented lines, retailers are expanding their brands far beyond a singular focus on low price. Now, these firms, after realizing the profit potential of private labels, are leveraging their equity outside of fast-moving consumer goods into areas such as personal finance, insurance, and telecommunications.

U.S. Food Exporters and Private Label Opportunities in the Canadian Market

Traditionally, private label products have been considered anathema to many consumer goods manufacturers. They are viewed as "category killers" and cheap, me-too products that drain all the profits out of a market by increasing consumers' price sensitivity. However, both retailers and consumers have fully understood the benefits of this trend. Private label offerings have steadily stolen share from popular brand-name products. One-fifth of all grocery sales in the United States are now sold under retailer's names. Private label accounts for a quarter of sales in Canada, and in Europe the proportion is even higher.

According to some sources, manufacturers' fears seem justified, but only on the surface. It has been pointed out that there has been a fundamental shift in the private label world that has the potential to give back to brand manufacturers the revenue and profits they require.

The biggest change in private labels is that they have gone up-market. A premium private label may have once been an oxymoron, but that is no longer the case. Following the lead of their European counterparts, North American retailers have been introducing store brands that match or even exceed the quality of brand-name goods, while still selling for a slightly lower price. Safeway, Wal-Mart, and others have realized that many consumers have the willingness and the cash to pay extra for higher quality, and they want to capture a share of that spending.

It is important to consider the experience of Loblaws, the largest Canadian grocery chain and a pioneer in this up-market trend. Back in the early 1980s, it added the new premium President's Choice line to its traditional unbranded product. In categories where consumers value high quality, President's Choice products compete directly with major brands. In its marketing messages, Loblaws stresses the quality of the ingredients and the preparation of President Choice. Its olive oil, for example, is "harvested from trees planted more than 80 years ago and produced from first cold pressing of sun-ripened olives".

The move of private label from low-quality, cheap products to up-market, premium, and high-quality offerings has actually helped brand name manufacturers. Premium private labels now have enough appeal for consumers that they are leading the way in creating entirely new categories. Loblaws, in fact, has a large research and development group doing just that. The group created, for example, President's Choice frozen boxed meats – a line offering chicken strips, sausage rolls, and other products. Other manufacturers have since moved in with their brand-name goods and are enjoying healthy sales.

Canadian Retail Private Label Contacts

Retailer	Private Label Contact & Title	Address	Phone Number
The Great Atlantic & Pacific Company of Canada, Ltd.	Jane Ellenton Director, Corporate Brands Development	5559 Dundas St. W., Etobicoke, On. M9B 1B9	416-239-7171
Buy-Low Foods, Ltd.	Ian Dickinson Director, Retail Marketing	19580 Telegraph Trail, Surrey, BC V4N 4H1	604-888-1121
Canada Safeway Ltd.	G. Quadros Director, Grocery	1020-64 th Avenue NE, Calgary, AB T2E 7V8	403-730-3500
Federated Co-operatives Limited	D. Currie Director, Food Marketing	401-22 nd St. E., Saskatoon, SK S7K 3M9	306-244-3311
Loblaw Companies Ltd.	Pietro Satriano President, Loblaw Brands Limited	1 President's Choice Cr. Brampton, ON L6Y 5S5	905-459-2500
Longo Brothers Fruit Market Inc.	Joe Longo Vice-President	3767 Nashua Dr. Mississauga, ON L4V 1R3	905-673-3099
Metro Inc.	Jean Louis Carpentier Vice-President, Private Label	7151 Jean-Talon St. E. Anjou, PQ H1M 3N8	514-356-5850
Sobeys Inc.	Belinda Youngs General Manager, Consumer Brands and Innovation	115 King Street Stellarton, NS B0K 1S0	902-752-8371
The North West Company	Carl A. McKay Vice-President, Merchandising	77 Main Street Winnipeg, MB R3C 2R1	204-943-0881

Source: Who's Who, Annual Directory of Chains and Groups in Canada, Canadian Grocer Magazine, 2005

It is important to emphasize that, although Canadian retailers are hard bargainers when it comes to private-label agreements, price is not the only concern, and that innovation, product quality, and service to the retailer are other factors to consider in developing a long-term and profitable relationship.